

Message Text

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SUBJECT: TEXT OF DRAFT STATEMENT BY DEPUTY ASSISTANT SECRE-
TARY BOSWORTH ON ALASKA GAS PIPELINE FOR HOUSE SUBCOMMITTEE
HEARING APRIL 24.

REF: POSZ-GARLAND TELECON APRIL 14.

FOR AMBASSADOR ENDERS

1. DEPARTMENT ANTICIPATES THAT DEP. ASST. SECY. BOSWORTH
WILL BE INVITED TESTIFY BEFORE HOUSE SUBCOMMITTEE ON ENERGY
AND POWER (DINGELL) AT HEARINGS PLANNED FOR APRIL 24 AT
BAYTOWN, TEXAS ON SUBJECT OF US INDUSTRY PARTICIPATION IN
CONSTRUCTION OF PIPELINE.

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2. DEPARTMENT WOULD APPRECIATE RECEIVING SOONEST EMBASSY
COMMENT ON DRAFT TEXT OF BOSWORTH STATEMENT, AS FOLLOWS:

BEGIN TEXT:

INTRODUCTION
TODAY I WILL DESCRIBE THE APPLICABILITY OF WRITTEN AGREE-

MENTS BETWEEN THE GOVERNMENTS OF THE UNITED STATES AND CANADA TO THE RECENT DECISION BY THE NATIONAL ENERGY BOARD

OF CANADA TO USE 56-INCH PIPE FOR A CANADIAN SECTION OF THE ALASKA NATURAL GAS PIPELINE. MY REMARKS WILL FOCUS ON THE LEGAL ASPECTS OF THE CANADIAN DECISION. COMMISSIONER SMITH WILL DISCUSS THE TECHNICAL ASPECTS OF THE PIPE SIZE ISSUE.

THREE DOCUMENTS--THE US-CANADA TRANSIT PIPELINE TREATY, THE AGREEMENT ON PRINCIPLES APPLICABLE TO A NORTHERN NATURAL GAS PIPELINE, AND CANADIAN IMPLEMENTING LEGISLATION BILL C-25--FORM THE LEGAL BASIS FOR US-CANADIAN COOPERATION IN CONSTRUCTION OF A TRANSPORTATION SYSTEM FOR ALASKA NATURAL GAS.

THE US SENATE GAVE ITS ADVICE AND CONSENT TO RATIFICATION OF THE TRANSIT PIPELINE TREATY IN AUGUST, 1977.

THE AGREEMENT ON PRINCIPLES WAS SUBMITTED TO THE CONGRESS FOR APPROVAL AS PART OF THE PRESIDENT'S DECISION ON ALASKA GAS TRANSPORTATION SYSTEMS. BOTH HOUSES OF CONGRESS APPROVED THE PRESIDENT'S DECISION AND THE AGREEMENT ON PRINCIPLES IN OCTOBER, 1977.

THE CANADIAN IMPLEMENTING LEGISLATION, BILL C-25, RECEIVED LIMITED OFFICIAL USE

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FINAL APPROVAL EARLIER THIS MONTH.

THE CANADIAN CHOICE OF 56-INCH PIPE

PARAGRAPH 10(A) OF THE AGREEMENT ON PRINCIPLES IS RELEVANT TO THE CANADIAN NATIONAL ENERGY BOARD'S DECISION TO USE 56-INCH PIPE FOR AN ELEVEN HUNDRED MILE SEGMENT, IN CANADA, OF THE ALASKA GAS PIPELINE. PARAGRAPH 10(A) STATES:

"THE GOVERNMENTS WILL ESTABLISH A TECHNICAL STUDY GROUP FOR THE PURPOSE OF TESTING AND EVALUATING 54-INCH 1120 POUNDS PER SQUARE INCH (PSI), 48-INCH 1260 PSI AND 48-INCH 1680 PSI PIPE OR ANY OTHER COMBINATION OF PRESSURE AND DIAMETER WHICH WOULD ACHIEVE SAFETY, RELIABILITY AND ECONOMIC EFFICIENCY FOR OPERATION OF THE PIPELINE. IT IS UNDERSTOOD THAT THE DECISION RELATING TO PIPELINE SPECIFICATIONS REMAINS THE RESPONSIBILITY OF THE APPROPRIATE REGULATORY AUTHORITIES."

AFTER CONSULTATIONS WITH US OFFICIALS, WHICH COMMISSIONER SMITH WILL DESCRIBE TO YOU, THE NEB CHOSE THE 56-INCH PIPE

SIZE BECAUSE OF TECHNICAL CONSIDERATIONS. ALTHOUGH WE STRONGLY FAVORED THE 48-INCH HIGH PRESSURE OPTION, AND SO INFORMED THE GOVERNMENT OF CANADA, IT IS OUR VIEW THAT THE CANADIAN DECISION IS CONSISTENT WITH PARAGRAPH 10(A).

CANADIAN CONTENT

THE CANADIAN IMPLEMENTING LEGISLATION, BILL C-25, REQUIRES THAT THE CANADIAN COMPANIES INVOLVED IN THE ALASKA GAS PIPELINE DESIGN A PROGRAM FOR PROCUREMENT WHICH ENSURES THAT CANADIANS HAVE A FAIR AND COMPETITIVE OPPORTUNITY TO PARTICIPATE IN SUPPLYING GOODS AND SERVICES, AND THAT THE LEVEL OF CANADIAN CONTENT IS MAXIMIZED SO FAR AS PRACTICABLE.

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PARAGRAPH 7(A) OF THE AGREEMENT ON PRINCIPLES STATES:

"HAVING REGARD TO THE OBJECTIVES OF THIS AGREEMENT, EACH GOVERNMENT WILL ENDEAVOR TO ENSURE THAT THE SUPPLY OF GOODS AND SERVICES TO THE PIPELINE PROJECT WILL BE ON GENERALLY COMPETITIVE TERMS. ELEMENTS TO BE TAKEN INTO ACCOUNT IN WEIGHING COMPETITIVENESS WILL INCLUDE PRICE, RELIABILITY, SERVICING CAPACITY AND DELIVERY SCHEDULES."

IF IT APPEARS THAT PROCUREMENT IS TAKING PLACE ON OTHER THAN GENERALLY COMPETITIVE TERMS, PARAGRAPH 7(B) PROVIDES FOR CONSULTATIONS BETWEEN THE TWO GOVERNMENTS.

IT IS OUR VIEW THAT THE TERMS OF C-25, AND THE AGREEMENT ON PRINCIPLES ARE NOT INCONSISTENT BECAUSE:

--THE AGREEMENT DOES NOT ESTABLISH SPECIFIC LEVELS OF EITHER US OR CANADIAN CONTENT

--THE CANADIAN LEGISLATION DOES NOT RESERVE FOR CANADIAN COMPANIES ANY PORTION OF GOODS AND SERVICES REQUIRED FOR THE PIPELINE PROJECT

--THE CANADIAN LEGISLATION DOES NO MORE THAN GIVE EFFECT TO NORMAL CANADIAN REGULATORY PRACTICE OF FOSTERING CANADIAN PARTICIPATION IN CANADIAN PROJECTS.

IN A STATEMENT MADE BEFORE THE HOUSE OF COMMONS ON FEBRUARY 13, CANADIAN PRIME MINISTER ALLAN J. MACEACHEN SAID THAT IT WAS NOT HIS GOVERNMENT'S INTENTION TO GUARANTEE THAT A CERTAIN PERCENTAGE OF MATERIALS FOR THE PIPELINE BE OBTAINED FROM CANADIAN SUPPLIERS. MR. MACEACHEN ACKNOWLEDGED THAT SUCH GUARANTEES WOULD VIOLATE THE GENERAL AGREEMENT ON TRADE AND TARIFFS. FURTHERMORE, MR. MACEACHEN SAID, CANADIAN LIMITED OFFICIAL USE

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DIAN COMPANIES SEEK NO MORE THAN THE UNDERLYING ASSURANCES PROVIDED FOR IN THE LEGISLATION--NAMELY, THAT THEY HAVE A FAIR AND COMPETITIVE OPPORTUNITY TO PARTICIPATE IN THE SUPPLY OF GOODS AND SERVICES FOR THE PIPELINE.

COOPERATION BETWEEN THE LEGISLATIVE AND EXECUTIVE BRANCHES

THE ALASKA NATURAL GAS TRANSPORTATION ACT OF 1976 (ANGTA) ESTABLISHED A FRAMEWORK FOR CLOSE COOPERATION BETWEEN THE LEGISLATIVE AND EXECUTIVE BRANCHES IN REACHING A DECISION ON A TRANSPORTATION SYSTEM FOR ALASKAN GAS. THE SPECIAL PROCEDURES REQUIRED BY THE ACT WERE NECESSARY BECAUSE OF THE IMPORTANCE OF PROVIDING EARLY ACCESS TO NATURAL GAS RESERVES IN ALASKA OF 20 TRILLION CUBIC FEET WHICH, WHEN DELIVERED TO MARKET WILL SIGNIFICANTLY INCREASE THE SECURE SUPPLY OF ENERGY AVAILABLE IN THE UNITED STATES.

THE NORTHWEST-ALASKA SYSTEM THROUGH CANADA, DESIGNATED BY THE PRESIDENT AND APPROVED BY THE CONGRESS, WILL SAVE US CONSUMERS AN ESTIMATED \$20 BILLION DOLLARS OVER THE 25-YEAR LIFE OF THE SYSTEM. THIS SAVING RESULTS FROM A COST OF SERVICE ADVANTAGE OF 17-CENTS PER THOUSAND CUBIC FEET OVER THE COMPETING ALL-AMERICAN EL PASO ROUTE. THE NET NATIONAL ECONOMIC BENEFIT OF THE NORTHWEST-ALASKA SYSTEM EXCEEDS THAT OF THE EL PASO SYSTEM BY MORE THAN \$1 BILLION.

WORKING TOGETHER, THE LEGISLATIVE AND EXECUTIVE BRANCHES ARRIVED AT THIS IMPORTANT DECISION IN A TIMELY MANNER AND THEREBY SERVED WELL THE INTERESTS OF BOTH US AND CANADIAN CONSUMERS. LEGISLATIVE/EXECUTIVE COOPERATION ON THE ALASKA GAS TRANSPORTATION ISSUE SHOULD SERVE AS A MODEL FOR DEALING WITH OTHER ISSUES WHICH SIGNIFICANTLY AFFECT OUR COUNTRY.

CONCLUSION

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IN CONCLUDING, I WOULD LIKE TO POINT OUT THAT THE CANADIAN DECISION IN FAVOR OF 56-INCH PIPE INVOLVES ONLY 1,100 MILES OF A 4,800 MILE SYSTEM. PIPE OF 48-INCH DIAMETER AND SMALLER WILL BE USED FOR 730 MILES IN ALASKA, 900 MILES OF THE "WESTER LEG", 1,100 MILES OF THE "EASTERN LEG", AND 900 MILES OF THE CANADIAN PORTION OF THE SYSTEM. AMERICAN COMPANIES ARE NOT PRECLUDED BY THE AGREEMENTS WITH CANADA

FROM COMPETING TO SUPPLY GOODS AND SERVICES FOR ANY OF
THESE SEGMENTS.

WE WOULD HAVE, AS I SAID, MUCH PREFERRED THE 48-INCH HIGH
PRESSURE OPTION FOR THE CANADIAN SECTION OF THE SYSTEM.
BUT THE CANADIAN DECISION IN FAVOR OF 56-INCH PIPE IS
CONSISTENT WITH THE TERMS OF THE AGREEMENTS BETWEEN THE
GOVERNMENTS, AND DOES NOT ALTER THE FACT THAT BOTH COUNTRIE
WILL DERIVE SUBSTANTIAL BENEFITS FROM COOPERATING IN THE
CONSTRUCTION OF THE ALASKA GAS TRANSPORTATION SYSTEM. END
TEXT. CHRISTOPHER

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